

Business

Sex and the City Scandal deepens at Goldman Sachs **B3**

Hanging offence Ken Clarke says a hung parliament would cause chaos **B5**

ELECTION

2010

BATTLE FOR BUSINESS

Government borrowing highest since Second World War

By Angela Monaghan

PUBLIC sector borrowing hit a new record high of £23.5bn in March, underlining the dire state of the public finances that the next Government will be forced to contend with.

Despite the record level it was slightly lower than economists predicted, and took borrowing in the full year to £163.4bn, a little better

than the Chancellor's Budget forecast of £166.5bn, but also a record high.

Economists said the undershoot was nothing to cheer about. "The big picture is that this is still the biggest budget deficit since the Second World War and on a rough par with that of Greece," said Jonathan Loynes at Capital Economics. The next Government will

have to act to sharply reduce the deficit through spending cuts and tax rises or put Britain's AAA rating at risk, ratings agencies have warned.

"With all parties' fiscal plans based on extremely optimistic economic assumptions and unspecified spending cuts, a further sizeable fiscal squeeze will still be needed after the election, whoever is in charge," Mr Loynes said.

£163.4bn

Public sector borrowing in 2009-10, according to data from the Office for National Statistics

Business groups have argued that plans to reduce the deficit should focus on spending cuts and not tax

rises. The public finances data were published by the Office for National Statistics, which also revealed disappointing retail sales figures. The ONS said volumes rose by 0.4pc in March, lower than the 0.6pc increase expected by economists.

However, there was better news from the manufacturing sector, after the CBI reported a rise in exports and the first

rise in domestic orders in two-and-a-half years in the three months to April.

The business group's latest industrial trends survey showed that a balance of +12pc of respondents said the total volume of orders had risen over the period, which the CBI described as the first significant growth since January 2008.

A strong growth in orders

is expected in the next quarter, the survey found, with a balance of +20pc predicting an increase. Overall optimism jumped the most in 16 years, the CBI said.

The Bank of England said the broad money supply rose by just 0.1pc in March, which drove annual growth to 3.5pc – the lowest in a decade.

Comment: **B2**

Virgin challenges price-fix claims

Carrier alleged to have colluded with rival on Hong Kong route

By Alistair Osborne
Business Editor

SIR Richard Branson's Virgin Atlantic has become embroiled in a price-fixing investigation after rival airline Cathay Pacific turned whistleblower and handed over evidence to the Office for Fair Trading (OFT).

The move comes only days before Virgin Atlantic executives are called by the OFT as prosecution witnesses to testify against four current and former British Airways executives in a high-profile court case. The BA four, who are accused of an alleged "criminal cartel offence", have been brought to trial after Sir Richard's airline blew the whistle over the alleged price-fixing of fuel surcharges.

The OFT disclosed yesterday that, after a three-year investigation, it had "issued a statement of objections alleging

the exchange of commercially sensitive information". Cathay took evidence to the OFT in March 2007.

While the OFT did not name any individuals, it is believed one of them is Virgin's former commercial director William Boulter – one of three main Virgin witnesses in the BA case. Mr Boulter, who once worked for Cathay, is believed to have been in contact with a junior official from the Hong Kong-based carrier.

The OFT said neither Sir Richard or Virgin Atlantic's chief executive, Steve Ridgway – another witness in the BA case – were involved in the Cathay inquiry. No individuals face criminal charges.

Virgin, which now flies 200,000 passengers on the Hong Kong route out of the 5.5m it carries annually, said it "intends to robustly defend itself against these allegations. The airline does not believe it has acted in any way contrary to the interests of consumers.

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ing that Cathay Pacific and Virgin Atlantic have infringed competition law in relation to passenger services on the London to Hong Kong route".

As the whistleblower, Cathay remains immune to any penalty as long as it continues to co-operate – a status that Virgin enjoys in the BA case. Virgin faces a maximum fine of 10pc of turnover – or £250m based on its £2.5bn sales in the year to the February 2009.

The alleged infringement occurred between September 2002 and July 2006 in a market then carrying an average 1.2m passengers a year, thought to be worth about £1.2bn annually at the time.

The OFT said the case "concerns a number of alleged contacts between employees of the two airlines... which it is alleged had the object of co-ordinating the parties' respective pricing strategies regarding passenger fares through

Greek ruin



Crisis spreads contagion across southern Europe

By Ambrose Evans-Pritchard

GREECE'S debt crisis has reached a dramatic crescendo after the EU revealed that the country's debt and deficit figures are even worse than feared and leading banks began to talk openly of debt-restructuring.

With contagion spreading across southern Europe, spreads on 10-year Greek bonds exploded to almost 600 basis points over German Bunds in panic trading, pushing borrowing costs close to 9pc. Rates on two-

year debt rose to 10.6pc in a market gone mad.

"It is clear that the Greek situation is a very serious one," said Dominique Strauss-Kahn, head of the International Monetary Fund (IMF). "There is no silver bullet to solve it in an easy manner."

Credit default swaps (CDS) on Portuguese debt surged 50 basis points in a matter of hours to an all-time high of 270. Markit said the CDS on Spain reached a fresh record of 175, and Ireland jumped to 162, with jitters reaching

Hungary, Bulgaria, Romania, Russia and even Argentina.

"This is now a real test of EU leadership," said Julian Callow, of Barclays Capital. "Europe needs to act very fast to ring-fence Greece to prevent contagion. There has never been a default in Western Europe since the Second World War and the whole financial system is depending on the assumption that it cannot be allowed to happen. There may need to be some sort of 'Brady bonds' or

Continued on B4

North Face scuppers Ashley move for Blacks

By Richard Fletcher
City Editor

THE US clothing giant that owns North Face has acquired a 5pc stake in Blacks Leisure – a move that appears to be designed to block any future bid by rival Sports Direct International, the retailer controlled by billionaire Mike Ashley.

VF Corporation – the \$9bn (£5.85bn) clothing giant that also owns Wrangler, Lee Jeans and Vans – has acquired warrants from banks involved in the recent refinancing of Blacks Leisure that will, when exercised, give it a 5pc stake in the retailer.

Sports Direct – the largest shareholder in Blacks Leisure with a 28.5pc stake – walked away from making a bid for rival Blacks Leisure earlier this month, just 24 hours before a Takeover Panel-imposed "put-up-or-shut-up" deadline expired.

Mr Ashley, who first tried to buy Blacks in March last year, is now barred from making a new offer for Blacks Leisure until September.

Suppliers to Blacks Leisure – including North Face – had reportedly threatened to boycott the outdoor and camping equipment retailer if Mr Ashley had seized control of the chain.

The threatened boycott followed Sports Direct's takeover of specialist sports chain Field & Trek in 2007.

In the first year of ownership, turnover almost halved from £12.5m to £7.5m and the retail chain plunged into the red, according to accounts filed at Companies House, reporting a loss of £2m. North Face does not currently supply Field & Trek.

A spokesman for VF Corporation confirmed that it had purchased the warrants:

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"This investment was made in support of Blacks' continuing restructuring efforts and strong internal management.

"VF has no plans to further increase its ownership position in Blacks Leisure and looks forward to continuing as one of Blacks' many suppliers".

A spokesman for Blacks Leisure refused to comment.

Blacks Leisure shares closed up 2 at 59½p while Sports Direct fell 2 to 106p.

Apax builds stake in sportswear giant Adidas: Market report **B7**

City bonuses to hit £6.8bn, says CEBR

By Angela Monaghan

THE City bonus pool will rise to £6.8bn in 2010-11 after a "bumper year" which has led to increased recruitment among major financial institutions, a think tank has predicted.

The Centre for Economics and Business Research (CEBR) said it had revised up an earlier forecast by £100m, and added that financial institutions were expected to report a sharp rise in profits in the first three months of this year.

The figure is higher than the £6bn paid out in the 2009-10 fiscal year, and CEBR predicted that City bonuses will rise to about £7.2bn in 2011-12, and £7.7bn in 2012-13.

It said the introduction of the 50pc tax rate for Britain's top earners would see City workers receiving a smaller proportion of the payout than

the Government. Financial workers would take home a total of £3.6bn this year, while the Government is set to receive £4bn from bonus payments, CEBR said.

"The recent change to the tax system has shifted the balance of rewards from City bonuses in favour of the Government," said Benjamin Williamson, CEBR economist. "Despite contributing billions of pounds in tax already, the public's appetite for a larger slice of City bonuses will not go away."

The think tank said bonuses jumped 50pc in 2009-10 after the financial sector returned to growth in the second half of the year. It added bonus payments were still "significantly lower" than the £10.2bn paid out in 2007-08, when more people were employed in the City and average bonuses were higher.

ABI concerns about Lloyds bonuses

By Philip Aldrick

THE Association of British Insurers (ABI) has urged shareholders in Lloyds Banking Group to consider rejecting the state-backed lender's pay plan in protest at the decision to award Eric Daniels, chief executive, his full bonus.

Mr Daniels waived his right to take the £2.3m payment but shareholders were furious that the remuneration committee judged he had qualified for the full award despite leading the

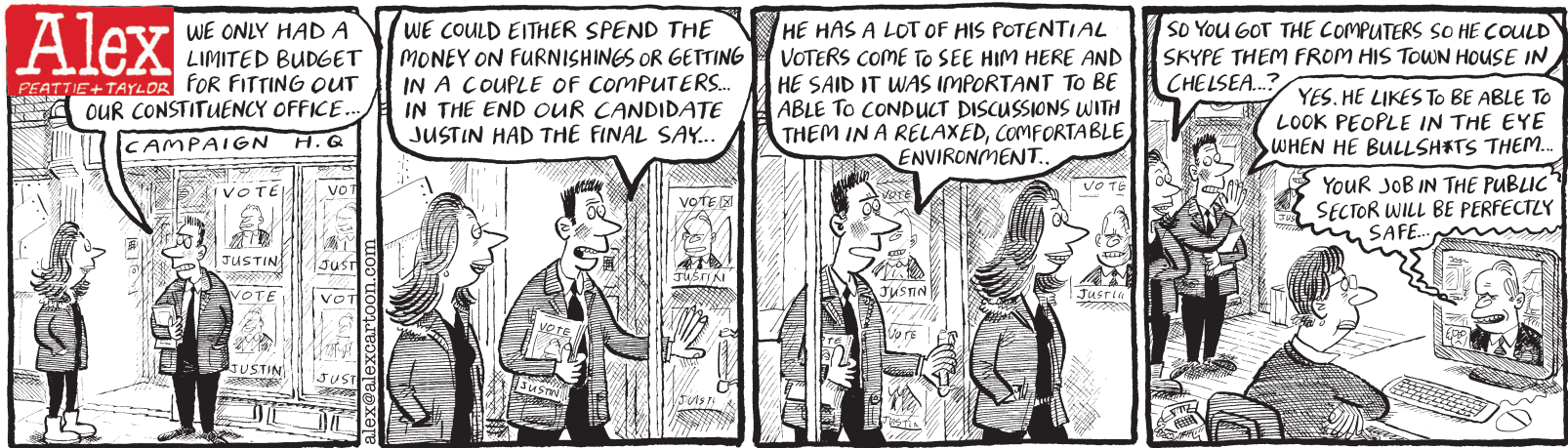
bank to a £6.3bn loss. Institutional outrage prompted Wolfgang Berndt, chairman of the remuneration committee, to announce his decision to step down at the annual meeting.

The ABI has now issued an "amber alert" on the remuneration report, to be voted on at next month's annual meeting. "There is concern amongst some shareholders in the way the remuneration committee made its decision on bonuses," said Peter Montagnon, ABI's director of investment affairs.

"We note there is a new remuneration committee chairman and a commitment to maintain close dialogue."

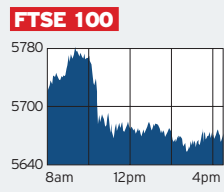
Lloyds said: "Our approach to remuneration has been developed with input from both shareholders and regulators in 2009 and into 2010. The remuneration committee has sought to strike a balance between the fact the group is loss-making and the need to motivate key executives."

Comment: **B2**



60
SECOND
BRIEFING

MARKETS



5665.33
-58.10 -1.02pc
2010 High 5825.01
2010 Low 5060.92
Yield 3.29pc +0.04
P/E ratio 16.44 -0.17

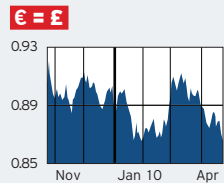
The FTSE fell after the latest news on Greece's debt crisis damaged market confidence. MARKET REPORT **B7** >>

BIGGEST RISER

ARM HOLDINGS
258.90p
+8.4p (3pc)

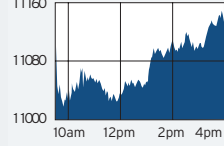
BIGGEST FALLER

SHIRE
1411p
-51p (3pc)



The pound hit an eight-month high against the euro after renewed fears over Greece hit the single currency.

DOW JONES



11134.29
+9.37 +0.08pc
The Dow Jones closed up after a speech by President Obama eased concerns about financial regulation.

MARKET REPORT

Prudential was out of favour. Dealers were spooked by news that a hedge fund was shorting the shares. FULL REPORT **B7** >>

OTHER MARKETS

FTSE 250	10435.61	-33.54
FTSE All-share	2914.16	-27.71
Yield	3.16	+0.03
FTSE Eurotop 100	2291.40	-27.23
Nikkei	10949.09	-140.96
DJ Eurostoxx50	2897.59	-50.05
S&P 500	1208.67	+2.73
Nasdaq	2519.07	+14.46

CURRENCIES

£	€	£	\$
RATE	1.1567	RATE	1.5387
CHANGE	+0.66c	CHANGE	-0.18c
FULL LISTING B5 >>			

COMMODITIES

GOLD
\$1136.60 (E739)
-7.40 -0.65pc

BRENT CRUDE
\$85.67
+0.03 +0.04pc
FULL LISTING **B3** >>

QUESTOR

BUY IMI
The group's markets are starting to improve, with a 25pc jump in orders. QUESTOR **B6** >>

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